

June 21, 2022

Cost Growth Target Advisory Committee
Sustainable Health Care Cost Growth Target Program
Oregon Health Authority
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Submitted electronically to: HealthCare.CostTarget@dhsosha.state.or.us

Members of the Advisory Committee:

On behalf of Oregon's 62 community hospitals and the patients they serve, the Oregon Association of Hospitals and Health Systems (OAHS) stands ready to engage with the Cost Growth Target Advisory Committee as it navigates the continued implementation of the Cost Growth Target (CGT) program.

Obviously, much has changed in our health care system and our society since the CGT program was created. Unprecedented financial pressures have emerged over the course of the COVID-19 pandemic, and our care delivery system has been pushed to its breaking point, revealing fragility and fragmentation. Today, many hospitals across Oregon find their expenses outpacing revenue, compounding their struggle to hire and retain staff and ultimately to provide the level of care that their communities need and expect. Each individual hospital and health system has its own unique story about how it has been impacted and what that means for their community. Recent examples include:

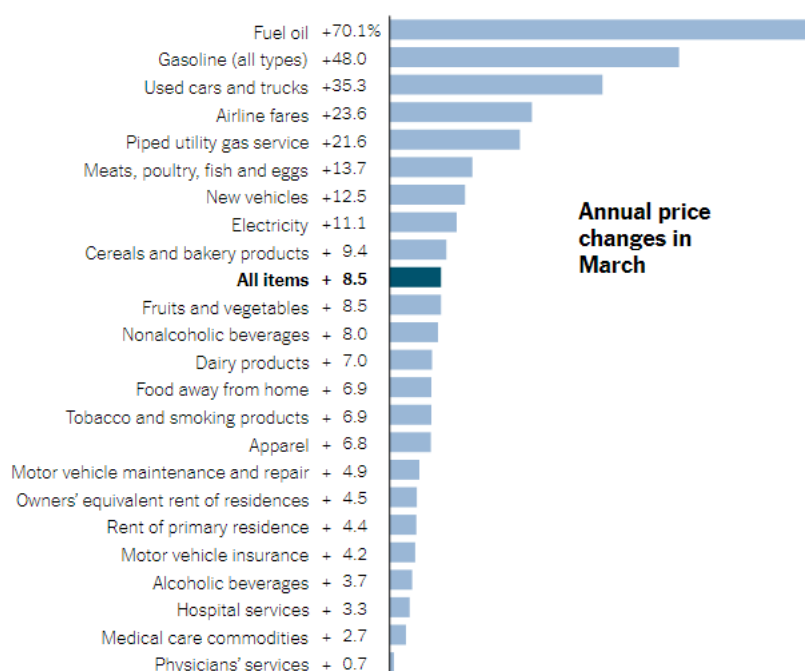
- OHSU: [Statement regarding OHSU's financial performance](#) (April 13, 2022) (See also coverage from [Portland Business Journal](#), April 14, 2022)
- Fierce Healthcare: [Providence Health posts \\$510M net loss in Q1 after major COVID-19 surge, investment declines](#) (May 16, 2022)
- St. Charles Health System: [Difficult times, difficult decisions](#) (May 18, 2022) (See also coverage from [OPB](#), May 19, 2022)
- Lake County Examiner: [Lake Health District \\$1.7M over budget for contract labor](#) (May 18, 2022)
- Becker's Healthcare: [Oregon hospital to close behavioral health unit, lay off 56 temporary employees](#) (May 27, 2022)

These examples reflect a larger pattern across the state and the nation. The 2021 year-end [Oregon Hospital Utilization & Financial Analysis](#) shows that many hospitals' expenses are rising drastically in the face of high inflation, supply chain disruptions and shortages, lengthening hospital stays due to deferred care and a fragmented post-acute care system, and the need to increase employee wages. Statewide, payroll and employee benefits made up 52% of Total Operating Expenses as of Q4 2021. Since Q1 2019, Physician Payroll and Facility Payroll have increased 33% and 30%, respectively. 42% of Oregon acute care hospitals ended 2021 with negative operating margins.

Nationally, an [April 2022 report from the American Hospital Association](#) (AHA) points to several factors that have caused over 33% of US hospitals to be operating on negative margins. Citing data from the [January 2022 Kaufmann Hall National Hospital Flash Report](#), AHA notes that the highest increases in hospital expenses from 2019 to 2021 were in drugs (36.9% increase), medical supplies

(20.6%), and labor (19.1% increase). Adding even further to their financial pressures, hospitals will again be facing the [full 2% Medicare sequestration](#) starting July 1, 2022, which was temporarily suspended as part of the CARES Act and was phased back in earlier this year.

Zooming out further, hospitals are experiencing the widespread inflation showing up throughout the current economy. In [April 2022, the New York Times reported](#) year-over-year Consumer Price Index changes as of March 2022 in a number of categories calculated by the Bureau of Labor Statistics:



Year-over-year changes in a selection of categories of the Consumer Price Index • Source: Bureau of Labor Statistics • By The New York Times

Note that the prices consumers have paid for hospital services increased only 3.3% even though inflation rates for many products that hospitals must purchase have increased many times that rate. This is not a sustainable situation.

Given these accumulating cost drivers with no end in sight, it is unlikely that the 3.4% cost growth target is achievable in our new reality. The CGT Implementation Committee recognized that some circumstances may contribute to cost growth that reasonably exceeds the target – including, but not limited to:

- Changes in mandated benefits
- New pharmaceuticals or treatments/procedures entering the market
- Changes in taxes or other administrative factors
- “Acts of God” – natural disasters, pandemics, other
- Changes in federal or state law
- Investments to improve population health and/or address health equity (see [Implementation Committee Report](#), p. 48).

We see many of these factors at play in our current environment, as well as other challenges that are beyond the control of hospitals and other health care providers or that result in unacceptable tradeoffs if cost cuts are made. Hospitals remain committed to collaborating across the health care

system to address rising costs, but patients must come first. Access, quality, and the ability to hire and retain adequate staff to meet patient needs must not be sacrificed for the sake of an outdated ideal.

We concur with the Implementation Committee that a collaborative data and information sharing process is critical for gaining valuable insights from the CGT program. Specifically, the Implementation Committee Report states:

The Oregon Health Authority intends to take a collaborative approach to implementing Oregon's cost growth target program, including working in partnership with payers and provider organizations to help everyone achieve the cost growth target and improve health care affordability.

OHA intends to establish a collaborative data and information sharing process between the state and payer and provider organizations with the goal that the state and the payer or provider organization share a common understanding about whether a payer or provider organization was above or below the cost growth target in a given year and why.

(p. 46).

We encourage the Advisory Committee to embrace this collaborative intent and maintain an open dialogue with stakeholders so that all relevant data and information are considered in moving this program forward. As we learn from the analysis of the initial datasets against the backdrop of our present challenges, we must set realistic goals for the future that strike the best balance in optimizing health care for Oregonians. That means:

- Working together to identify the cost drivers that can and cannot be controlled
- Thoroughly evaluating the cost implications of other regulatory and policy decisions, and
- Allowing flexibility to adapt to changing needs and circumstances.

Thank you for the opportunity to provide comment. We look forward to continuing the discussion.

Thank you,



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